



Governor's Budget: Strategic, Responsible, Accountable

"The state budget is a lot like a family budget," she said. "We must make sure kids get what they need to do well in school, maintain safe and reliable transportation and, simply, pay the bills – including those you didn't expect. And we must save now in order to manage if money gets tight."

Governor Chris Gregoire
December 8, 2005

Required New Spending in Supplemental Budget

- ✓ Maintenance of mandatory programs across state government – **\$86 million**
- ✓ Higher public school enrollment and caseload increases in human services – **\$49 million**
- ✓ I-732 salary increases for K-12 schools and higher education – **\$34 million**
- ✓ Courts – **\$30 million**
- ✓ Energy costs – **\$16 million**
- ✓ Disaster and emergency preparedness – **\$9 million**
- ✓ Fighting last summer's forest fires – **\$6 million**

These are great times for Washington State. The economy is booming, led by home sales and new construction. Companies are hiring. Orders for Boeing aircraft are on the rise. Innovation, research and development are creating opportunities for more economic growth.

People of the state have good reason to be optimistic about the future, but state government must stay on a course that maintains its ability to deliver important services – without overburdening taxpayers – in both good times and bad.

\$1.4 billion in new state revenue

Washington's people benefit from a strong economy. So does state government. After the Legislature earlier this year adopted a two-year, state General Fund budget of \$26 billion, subsequent quarterly state revenue forecasts now project that state government will get more than \$1.4 billion in new revenue through the end of the 2005-07 Biennium.

As Governor Chris Gregoire prepares her 2006 supplemental budget proposal, which primarily is intended to make mid-course corrections in the underlying two-year budget, she faces pressure on all fronts to spend the unexpected, new revenue.

Economy is cyclical, state government is not

Governor Gregoire knows, however, that the state economy is cyclical. It rises and falls in response to changing circumstances on the global and national level. But the Governor also knows that the cost of state government – driven by community-wide demands for health care, education opportunities and public safety – does not fluctuate the way the economy does. In fact, when times get tough, the demand for state services goes up.

While the state's overall economy presently is sound, recent large revenue growth has come primarily from an expanding housing market. The chance of a downturn in state revenue is always higher when revenue growth is based mainly on one factor. And, most economists now believe a slowdown in the housing market will begin well before the end of the 2005-07 Biennium. Although housing prices in Washington are expected to level off – rather than crash – there is a substantial risk of a slowdown in state revenue growth.

Governor's budget will include significant savings

Caution is warranted as Governor Gregoire considers state spending in the current biennium. She is taking a responsible approach that will help keep the state budget on a steady course, choosing to save a sizeable portion of the state's new revenue – money that was not anticipated when the Legislature approved the current, two-year budget. The state needs to save now, both to cover predictable increases in the cost of state services in the 2007-09 Biennium, and to ensure the state is prepared to deal with an economic slowdown or major emergency.

By saving hard-earned taxpayer dollars today, Governor Gregoire can help avoid tax increases or draconian cuts that otherwise could become necessary to balance the budget in the next biennium. It's no secret that health care inflation is outstripping the growth of state revenue, and that the state faces major, pension-funding obligations. And that is in addition to pressure that rising school enrollment, prison population and human-services caseload will place on the state budget in the next biennium.

Setting aside as much revenue as possible in the current budget puts the state on the right track, with no tax increases to support existing programs for the next three years.

Governor's supplemental budget: A balanced approach

The Governor believes the state is served well by the two-year budget the Legislature adopted eight months ago. It met her priorities for education by helping students in high schools pass the state's required tests, permanently funding class-size Initiative 728, reinstating teacher pay Initiative 732, and increasing enrollment in the higher education system by 7,900 students. It strengthened the transportation backbone of Washington's economy by providing \$8.5 billion in new transportation revenue over 16 years. And it expanded health care to 73,000 children in families without health insurance.

On Dec. 20, Governor Gregoire will propose a supplemental budget that primarily will address unavoidable costs that could not be anticipated when the two-year budget was approved. It also will balance the importance of new programs considered for funding against the need to save money for the future. The Governor's supplemental budget will be:

- **Strategic**, limiting General Fund spending for new programs primarily to those that meet critical education needs, helping today's students compete and succeed in tomorrow's economy.
- **Responsible**, paying for required costs driven by the latest forecasts for public school enrollment, caseloads in the prison system, mental health facilities and social service programs, as well as fighting last summer's forest fires and other mandatory obligations that could not be predicted when the Legislature adopted the current biennial budget.
- **Accountable**, saving a significant portion of new state revenue generated by the strong economy in the current biennium to balance the state budget in the 2007-09 Biennium.

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